

CITY OF CARTER LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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City of Carter Lake

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--------------------|-----------------|---------------------|
| Russell Kramer | Mayor | January 2014 |
| Edward Aldmeyer | Council Member | January 2012 |
| Joseph Anderson | Council Member | January 2012 |
| Ronald Cumberledge | Council Member | January 2012 |
| Tim Parker | Council Member | January 2014 |
| Barbara Melonis | Council Member | January 2014 |
| | | |
| Doreen Mowery | Clerk/Treasurer | January 2012 |
| Lisa Ruehle | Deputy Clerk | Indefinite |
| Joe Thornton | City Attorney | January 2012 |



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

October 18, 2011

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Carter Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

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Independent Auditor's Report
City of Carter Lake

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 18, 2011 on our consideration of the City of Carter Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Carter Lake's basic financial statements. We previously audited the financial statements for the year ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were presented in conformity with an other comprehensive basis of accounting. The financial statements for the eight years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including The Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schroeder & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Carter Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 Financial Highlights

- The City's total receipts for governmental activities increased approximately \$1,787,000 from fiscal year 2010 to 2011. Capital grants increased approximately \$921,000, and tax increment financing receipts increased approximately \$296,000.
- Disbursements of the City's governmental activities increased approximately \$5,336,000 from fiscal year 2010 to fiscal year 2011. Capital projects increased \$1,733,000, and debt service increased \$3,590,000.
- The City's total cash basis net assets increased by \$1,532,000 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$1,428,000 and the assets of the business type activities decreased by \$104,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-Wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitation resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water works, the sanitary sewer system and garbage activities. These activities are financed primarily by user charges.

Fund Financial Statements

The city has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The Governmental Fund Financial Statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Garbage funds, all considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash basis balance for governmental activities decreased from a year ago, from \$3,870,754 to \$2,443,279. The analysis that follows focuses on the changes in cash balances for governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|-------|
| | Year ended June 30, | |
| | 2011 | 2010 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 210 | 245 |
| Operating grants, contributions and restricted interest | 781 | 643 |
| Capital grants, contributions and restricted interest | 1,086 | 165 |
| General receipts: | | |
| Property tax | 1,482 | 1,291 |
| Tax increment financing | 1,057 | 761 |
| Local option sales tax | 412 | 348 |
| Other city tax | 435 | 421 |
| Grants and contributions not restricted to specific purpose | 5 | 5 |
| Unrestricted interest on investments | 7 | 10 |
| Bond and note proceeds | 3,485 | 3,272 |
| Other general receipts | - | 12 |
| Total receipts | 8,960 | 7,173 |
| Disbursements: | | |
| Public safety | 1,149 | 1,036 |
| Public works | 356 | 345 |
| Health and social services | 10 | 14 |
| Culture and recreation | 746 | 848 |
| Community and economic development | 528 | 595 |
| General government | 414 | 352 |
| Debt service | 4,065 | 475 |
| Capital projects | 3,120 | 1,387 |
| Total disbursements | 10,388 | 5,052 |
| Change in cash basis net assets before transfers | (1,428) | 2,121 |
| Transfers, net | - | 621 |
| Change in cash basis net assets | (1,428) | 2,742 |
| Cash basis net assets beginning of year | 3,871 | 1,129 |
| Cash basis net assets end of year | \$ 2,443 | 3,871 |

Total governmental activities receipts for the fiscal year were approximately \$8,960,000 compared to \$7,173,000 last year. This increase was due to the receipt of bond and refunding note proceeds and capital grants to finance the Locust Street Project.

The cost of all governmental activities this year was approximately \$10,388,000, compared to \$5,052,000 last year. This increase was due to refunding certain outstanding capital loan notes and the costs of the Locust Street Project.

| Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|---------------------|-------|
| | Year ended June 30, | |
| | 2011 | 2010 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 392 | 395 |
| Sewer | 412 | 405 |
| Garbage | 155 | 177 |
| Total receipts | 959 | 977 |
| Disbursements: | | |
| Water | 463 | 431 |
| Sewer | 474 | 346 |
| Garbage | 126 | 118 |
| Total disbursements | 1,063 | 895 |
| Change in cash basis net assets before transfers | (104) | 82 |
| Transfers, net | - | (621) |
| Change in cash basis net assets | (104) | (539) |
| Cash basis net assets beginning of year | 1,188 | 1,727 |
| Cash basis net assets end of year | \$ 1,084 | 1,188 |

Total business type activities charges for services receipts for the fiscal year were \$959,122 compared to \$962,021 last year. The cash balance decreased approximately \$104,000 from the prior year. Receipts were down \$18,000 due to timing of deposits of cash collected and deposited by the billing agent, PeopleService, Inc. Garbage fees were also reduced effective January 1, 2011.

Water disbursements increased over the prior year by: \$37,753 for wages and benefits, \$6,676 for infrastructure repairs, \$9,923 for MUD and PeopleService, Inc. contract services, and \$8,274 for water meter purchases.

Sewer disbursements increased over prior years by: \$52,224 for wages and benefits and \$83,107 for the City of Omaha sewer treatment contract.

Garbage disbursements decreased by \$11,087 due to a change in contractors at mid-year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of \$2,443,279, a decrease of \$1,427,475 from last year's balance of \$3,870,754. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$16,148 to \$632,529.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$121,482 to \$438,695. The increase is due to funds collected that will be transferred to pay off debt for City Hall and Locust Street projects.
- The Debt Service Fund decreased \$90,133 to \$224,884. The decrease is due to the reduction in reserve cash funds needed to pay principal and interest in the upcoming fiscal year.
- The Capital Projects Fund decreased \$1,546,453 to a cash balance of \$861,810. This decrease is due primarily to the costs of the Locust Street project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$71,311 to \$245,838, due primarily to cash reserves used to pay increases in wages and benefits, infrastructure repairs, contract services and meter purchases.
- The Sewer Fund cash balance decreased \$61,852 to \$396,525, due primarily to cash reserves used to pay increased wages and benefits as well as increased sewer fees to the City of Omaha.
- The Garbage Fund cash balance increased \$29,206 to \$441,913.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved March 7, 2011 and resulted in an increase in disbursements of \$6,204,470. The increase was primarily for capital projects and debt service.

The City receipts were \$494,594 less than budgeted. This was due to the City receiving less in grant funds than budgeted.

With the amendment, total disbursements were \$2,087,813 less than budgeted. The actual disbursement for capital projects was less than the amended budget due to timing of project costs.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$8,185,000 in short and long-term debt outstanding, compared to approximately \$8,520,000 last year as shown below:

| Outstanding Debt at Year End (Expressed in Thousands) | | | |
|--|----|---------------------|----------|
| | | Year ended June 30, | |
| | | 2011 | 2010 |
| General obligation notes | \$ | 4,710 | \$ 4,980 |
| Urban renewal tax increment financing revenue notes | | 40 | 60 |
| Local option sales tax revenue bonds | | 3,435 | 3,480 |
| | \$ | 8,185 | \$ 8,520 |

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding debt of approximately \$8,185,000 is below its constitutional debt limit of approximately \$10.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Carter Lake's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities.

Taxes are levied at the maximum of \$8.10/1000 valuation. Annual fluctuation in tax rates are typically a reflection of insurance and employee benefits costs. Business type functions are reviewed annually and adjusted based on current costs. The City will be reviewing current water and sewer rates to see if any adjustments need to be made. Fees for garbage collections were reduced in the current year to reflect the decrease in the contract cost for services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Doreen Mowery, City Clerk, 950 Locust Street, Carter Lake, Iowa 51510.

City of Carter Lake
Basic Financial Statements

City of Carter Lake
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2011

| | | Program Receipts | |
|------------------------------------|---------------|---------------------|--|
| | Disbursements | Charges for Service | Operating Grants Contributions and Restricted Interest |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 1,149,328 | 71,971 | 167,431 |
| Public works | 355,473 | 57,810 | 356,042 |
| Health and social services | 9,835 | - | - |
| Culture and recreation | 746,306 | 76,297 | 165,666 |
| Community and economic development | 528,421 | - | 46,578 |
| General government | 413,717 | 4,294 | 37,045 |
| Debt service | 4,065,438 | - | 8,863 |
| Capital projects | 3,120,468 | - | - |
| Total governmental activities | 10,388,986 | 210,372 | 781,625 |
| Business type activities: | | | |
| Water | 463,132 | 391,821 | - |
| Sewer | 474,118 | 412,266 | - |
| Garbage | 125,829 | 155,035 | - |
| Total business type activities | 1,063,079 | 959,122 | - |
| Total | \$ 11,452,065 | 1,169,494 | 781,625 |

General Receipts:

Property tax levied for:
 General purposes
 Employee benefits
 Debt service
 Tax increment financing
 Local option sales tax
 Other city tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investments
 Note proceeds
 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, restated

Cash basis net assets end of year

Cash Basis Net Assets:

Restricted:
 Expendable:
 Urban renewal purposes
 Debt service
 Capital projects
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

| Capital Grants Contributions and Restricted Interest | Net (Disbursement) Receipts and Changes in Cash Basis Net Assets | | |
|---|---|-----------------------------|-------------|
| | Governmental Activities | Business Type Activities | Total |
| - | (909,926) | - | (909,926) |
| - | 58,379 | - | 58,379 |
| - | (9,835) | - | (9,835) |
| - | (504,343) | - | (504,343) |
| - | (481,843) | - | (481,843) |
| - | (372,378) | - | (372,378) |
| - | (4,056,575) | - | (4,056,575) |
| 1,085,779 | (2,034,689) | - | (2,034,689) |
| 1,085,779 | (8,311,210) | - | (8,311,210) |
| - | - | (71,311) | (71,311) |
| - | - | (61,852) | (61,852) |
| - | - | 29,206 | 29,206 |
| - | - | (103,957) | (103,957) |
| 1,085,779 | (8,311,210) | (103,957) | (8,415,167) |
| \$ | 965,920 | - | 965,920 |
| | 360,482 | - | 360,482 |
| | 155,507 | - | 155,507 |
| | 1,057,294 | - | 1,057,294 |
| | 411,880 | - | 411,880 |
| | 434,643 | - | 434,643 |
| | 5,148 | - | 5,148 |
| | 7,544 | - | 7,544 |
| | 3,485,317 | - | 3,485,317 |
| | 6,883,735 | - | 6,883,735 |
| | (1,427,475) | (103,957) | (1,531,432) |
| | 3,870,754 | 1,188,233 | 5,058,987 |
| \$ | 2,443,279 | 1,084,276 | 3,527,555 |
| \$ | 438,695 | - | 438,695 |
| | 224,884 | - | 224,884 |
| | 861,810 | - | 861,810 |
| | 285,361 | - | 285,361 |
| | 632,529 | 1,084,276 | 1,716,805 |
| \$ | 2,443,279 | 1,084,276 | 3,527,555 |

City of Carter Lake
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2011

| | General | Special Revenue Tax Increment Financing | Debt Service |
|---|-------------------|---|------------------|
| Receipts | | | |
| Property tax | \$ 927,740 | - | 152,925 |
| Tax increment financing collections | - | 1,057,294 | - |
| Other city tax | 531,171 | - | 314,175 |
| Licenses and permits | 29,197 | - | - |
| Use of money and property | 34,084 | - | 8,863 |
| Intergovernmental | 269,039 | - | - |
| Charges for service | 139,164 | - | - |
| Special assessments | 10,640 | - | - |
| Miscellaneous | 43,342 | 1,893 | - |
| Total receipts | <u>1,984,377</u> | <u>1,059,187</u> | <u>475,693</u> |
| Disbursements | | | |
| Operating: | | | |
| Public safety | 870,136 | - | - |
| Public works | 1,045 | - | - |
| Health and social services | 9,835 | - | - |
| Culture and recreation | 668,179 | - | - |
| Community and economic development | 72,716 | 455,705 | - |
| General government | 375,614 | - | - |
| Debt service | - | - | 4,065,438 |
| Capital projects | - | - | - |
| Total disbursements | <u>1,997,525</u> | <u>455,705</u> | <u>4,065,438</u> |
| Excess (deficiency) of receipts over (under) disbursements | (13,148) | 603,482 | (3,589,475) |
| Other financing sources (uses): | | | |
| General obligation note proceeds net of discount | - | - | - |
| Operating transfers in | - | - | 3,499,342 |
| Operating transfers out | (3,000) | (482,000) | - |
| Total other financing sources (uses) | <u>(3,000)</u> | <u>(482,000)</u> | <u>3,499,342</u> |
| Net change in cash balances | (16,148) | 121,482 | (90,133) |
| Cash balances beginning of year | 648,677 | 317,213 | 315,017 |
| Cash balances end of year | \$ <u>632,529</u> | <u>438,695</u> | <u>224,884</u> |
| Cash Basis Fund Balances | | | |
| Restricted for: | | | |
| Urban renewal purposes | \$ - | 438,695 | - |
| Debt service | - | - | 224,884 |
| Capital projects | - | - | - |
| Other purposes | - | - | - |
| Unassigned | 632,529 | - | - |
| Total cash basis fund balances | \$ <u>632,529</u> | <u>438,695</u> | <u>224,884</u> |

See notes to financial statements.

| Capital Projects | Other Nonmajor Governmental Funds | Total |
|---------------------|---|-------------------|
| - | 352,891 | 1,433,556 |
| - | - | 1,057,294 |
| - | 49,530 | 894,876 |
| - | - | 29,197 |
| - | 151 | 43,098 |
| 1,082,312 | 327,139 | 1,678,490 |
| - | 129 | 139,293 |
| - | - | 10,640 |
| 3,467 | 141,048 | 189,750 |
| <u>1,085,779</u> | <u>870,888</u> | <u>5,476,194</u> |
| - | 279,192 | 1,149,328 |
| - | 354,428 | 355,473 |
| - | - | 9,835 |
| - | 78,127 | 746,306 |
| - | - | 528,421 |
| - | 39,103 | 413,717 |
| - | - | 4,065,438 |
| 3,120,468 | - | 3,120,468 |
| <u>3,120,468</u> | <u>749,850</u> | <u>10,388,986</u> |
| (2,034,689) | 121,038 | (4,912,792) |
| 3,485,317 | - | 3,485,317 |
| 502,261 | - | 4,001,603 |
| (3,499,342) | (17,261) | (4,001,603) |
| <u>488,236</u> | <u>(17,261)</u> | <u>3,485,317</u> |
| (1,546,453) | 103,777 | (1,427,475) |
| <u>2,408,263</u> | <u>181,584</u> | <u>3,870,754</u> |
| <u>861,810</u> | <u>285,361</u> | <u>2,443,279</u> |
| - | - | 438,695 |
| - | - | 224,884 |
| 861,810 | - | 861,810 |
| - | 285,361 | 285,361 |
| - | - | 632,529 |
| <u>861,810</u> | <u>285,361</u> | <u>2,443,279</u> |

City of Carter Lake
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

| | Enterprise Funds | | | |
|---------------------------------|------------------|----------|---------|-----------|
| | Water | Sewer | Garbage | Total |
| Operating receipts: | | | | |
| Charges for service | \$ 383,994 | 408,322 | 155,035 | 947,351 |
| Miscellaneous | 7,827 | 3,944 | - | 11,771 |
| Total operating receipts | 391,821 | 412,266 | 155,035 | 959,122 |
| Operating disbursements: | | | | |
| Business type activities | 463,132 | 474,118 | 125,829 | 1,063,079 |
| Total operating disbursements | 463,132 | 474,118 | 125,829 | 1,063,079 |
| Net change in cash balances | (71,311) | (61,852) | 29,206 | (103,957) |
| Cash balances beginning of year | 317,149 | 458,377 | 412,707 | 1,188,233 |
| Cash balances end of year | \$ 245,838 | 396,525 | 441,913 | 1,084,276 |
| Cash Basis Fund Balances | | | | |
| Unrestricted | \$ 245,838 | 396,525 | 441,913 | 1,084,276 |

See notes to financial statements.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies

The City of Carter Lake is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1930 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Carter Lake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City (primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Blended Component Unit

The Carter Lake Smoke Eaters is legally separate from the City but is so intertwined with the City, that it is in substance, the same as the City. It is reported as part of the City and blended into Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Pottawattamie County Assessor's Conference Board and the Pottawattamie County Joint E911 Service Board.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue:

The Tax Increment Financing Fund is used to account for urban renewal tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general and local option sales tax long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through proprietary funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the collection and disbursement of garbage collection fees and landfill fees.

C. Measurement Focus and Basis of Accounting

The City of Carter Lake maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2009, to compute the amounts which became liens on property on July 1, 2010. These taxes were due and payable in two installments on September 30, 2010 and March 31, 2011, at the Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation and urban renewal tax increment financing revenue notes and local option sales tax revenue bonds are as follows:

| Year Ending June 30, | General Obligation Bonds & Notes Principal | Urban Renewal Tax Increment Financing Revenue Notes Principal | Local Option Sales Tax Revenue Bonds Principal | Total Principal |
|-------------------------|--|---|--|--------------------|
| 2012 | \$ 480,000 | 20,000 | 50,000 | 550,000 |
| 2013 | 530,000 | 20,000 | 50,000 | 600,000 |
| 2014 | 535,000 | - | 55,000 | 590,000 |
| 2015 | 540,000 | - | 55,000 | 595,000 |
| 2016 | 480,000 | - | 80,000 | 560,000 |
| 2017-2021 | 2,145,000 | - | 450,000 | 2,595,000 |
| 2022-2026 | - | - | 575,000 | 575,000 |
| 2027-2031 | - | - | 730,000 | 730,000 |
| 2032-2036 | - | - | 940,000 | 940,000 |
| 2037-2038 | - | - | 450,000 | 450,000 |
| Total | \$ 4,710,000 | 40,000 | 3,435,000 | 8,185,000 |

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (3) Bonds and Notes Payable – Continued

| Year Ending June 30, | General Obligation Bonds & Notes Interest | Urban Renewal Tax Increment Financing Revenue Notes Interest | Local Option Sales Tax Revenue Bonds Interest | Total Interest |
|-------------------------|---|--|---|-------------------|
| 2012 | \$ 161,121 | 2,800 | 174,088 | 339,009 |
| 2013 | 114,947 | 1,400 | 172,088 | 288,435 |
| 2014 | 102,148 | - | 169,963 | 272,111 |
| 2015 | 89,248 | - | 167,625 | 256,873 |
| 2016 | 76,247 | - | 165,219 | 241,466 |
| 2017-2021 | 181,646 | - | 768,838 | 950,484 |
| 2022-2026 | - | - | 648,825 | 648,825 |
| 2027-2031 | - | - | 488,356 | 488,356 |
| 2032-2036 | - | - | 276,788 | 276,788 |
| 2037-2038 | - | - | 37,400 | 37,400 |
| Total | \$ 726,357 | 4,200 | 3,069,190 | 3,799,747 |

Interest costs paid during the year ended June 30, 2011 totaled \$262,739.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$10,600,000 which was not exceeded during the year ended June 30, 2011.

Urban Renewal Tax increment Financing Revenue Notes

The urban renewal tax increment financing (TIF) revenue notes were issued, for the purpose of defraying a portion of the costs of carrying out a urban renewal project for the City. The notes are payable solely from the income and proceeds of the Special Revenue, Tax Increment Financing Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the notes. The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the notes is \$44,200. For the current year, principal and interest paid and total TIF receipts were \$24,200 and \$1,057,294, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future tax increment financing revenues received by the City.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (3) Bonds and Notes Payable – Continued

Urban Renewal Tax increment Financing Revenue Notes - Continued

- b) Sufficient monthly transfers shall be made to a separate urban revenue note sinking account for the purpose of making the note principal and interest payments when due.
- c) Additional monthly transfers of 25% of the amount required to be deposited each month in the sinking account shall be made to an urban revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of making the note principal and interest payments when the sinking fund is insufficient.

Local Option Sales Tax Revenue Bonds

In July 2008, the City issued local option sales tax revenue bonds for the purpose of constructing a new City Hall. Local option sales tax receipts are generally projected to produce 100% of the debt service requirements over the life of the bonds. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitations of the City. The resolution providing for the issuance of the revenue bonds includes a provision which requires sufficient transfers shall be made to a separate bond reserve account to cover the maximum annual amount of principal and interest coming due. Total principal and interest remaining on the revenue bonds is \$6,504,190. For the current year, principal and interest paid and total local option sales tax receipts were \$220,888 and \$311,593, respectively.

The City is in compliance with the provisions of the bond and note resolutions.

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$98,619, \$92,723, and \$78,097 respectively, equal to the required contributions for each year.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 21 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with TrueNorth. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$431 for single coverage, and \$882 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, there were no plan members eligible for benefits.

NOTE (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2011, primarily relating to the General Fund and Proprietary Funds are as follows:

| Type of Benefit | Amount |
|-------------------|-------------------|
| Vacation | \$ 46,000 |
| Sick leave | 66,000 |
| Compensatory time | 11,000 |
| | <u>\$ 123,000</u> |

This liability is computed on rates of pay effective as of June 30, 2011.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (7) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The city's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2011 were \$65,222.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool, up to \$150,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (7) Risk Management - Continued

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claim shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

| Transfer to | Transfer from | Amount |
|------------------|-------------------------|---------------------|
| Debt Service | Capital Projects | \$ 3,499,342 |
| Capital Projects | General | 3,000 |
| | Special Revenue: | |
| | Road Use Tax | 17,261 |
| | Tax Increment Financing | 482,000 |
| | | <u>502,261</u> |
| | | \$ <u>4,001,603</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (9) Development and Rebate Agreements

The City entered into three separate development and rebate agreements during the years ended June 20, 2000 and June 30, 2004, to assist in urban renewal projects. The City agreed to rebate incremental tax paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plans.

In accordance with the first fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which property tax on the completed value of the improvements is first paid. The total amount rebated is not to exceed the cost of the public improvements paid for by the developer, which is \$1,650,000. Of the amount collected, 57% is to be paid to the developer and 43% is to be used for the development of low and moderate income housing projects. During the year ended June 30, 2011, the City paid the developer \$239,406 and allocated \$178,865 for low to moderate income housing projects from the tax increment financing received.

In accordance with the second fiscal year 2000 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated up to project costs of \$400,000 for a period not to exceed twelve years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. This agreement is paid in full.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount rebated each year shall represent 50% of the incremental property tax received by the City, not to exceed total projected costs of \$294,000. During the year ended June 30, 2011, the City paid the developer \$25,848.

NOTE (10) Related Party Transactions

The City had transactions between the City and City officials totaling \$2,034 during the year ended June 30, 2011.

City of Carter Lake
Notes to Financial Statements
June 30, 2011

NOTE (11) Construction Commitments

At June 30, 2011, the City had the following construction commitments:

| | Estimated Contract Amount | Paid to Date | Remaining Commitment | Retainage Payable |
|-----------------------|---------------------------------|-----------------|-------------------------|----------------------|
| City Hall Project | | | | |
| Engineering | \$ 219,799 | 219,799 | - | - |
| Construction | 3,000,940 | 2,981,680 | 19,260 | 17,030 |
| Locust Street Project | | | | |
| Engineering | \$ 441,566 | 441,566 | - | - |
| Construction | 3,612,547 | 2,808,366 | 804,181 | 30,000 |
| | | | <u>\$ 823,441</u> | <u>47,030</u> |

NOTE (12) Advance Debt Refunding

The Capital Loan Notes dated June 1, 2006, with an outstanding balance of \$295,000, were refunded December 16, 2010 at lower interest rates. The difference between the cash flow required to service the old debt and that required to service the new is \$21,290 which results in an economic gain of \$15,300 reflected at present value.

NOTE (13) Accounting Change/Restatement

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

| | General | Special Revenue Emergency Levy |
|--|-------------------|-----------------------------------|
| Balances June 30, 2011, as previously reported | \$ 648,807 | (130) |
| Change in fund type classification per implementation of GASB Statement No. 54 | (130) | 130 |
| Balances July 1, 2011, as restated | <u>\$ 648,677</u> | <u>-</u> |

Required Supplementary Information

City of Carter Lake
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|--|
| Receipts | | | |
| Property tax | \$ 1,433,556 | - | - |
| Tax increment financing collections | 1,057,294 | - | - |
| Other city tax | 894,876 | - | - |
| Licenses and permits | 29,197 | - | - |
| Use of money and property | 43,098 | - | - |
| Intergovernmental | 1,678,490 | - | - |
| Charges for service | 139,293 | 947,351 | 151 |
| Special assessments | 10,640 | - | - |
| Miscellaneous | 189,750 | 11,771 | 33,752 |
| Total receipts | <u>5,476,194</u> | <u>959,122</u> | <u>33,903</u> |
| Disbursements | | | |
| Public safety | 1,149,328 | - | 27,941 |
| Public works | 355,473 | - | - |
| Health and social services | 9,835 | - | - |
| Culture and recreation | 746,306 | - | - |
| Community and economic development | 528,421 | - | - |
| General government | 413,717 | - | - |
| Debt service | 4,065,438 | - | - |
| Capital projects | 3,120,468 | - | - |
| Business type activities | - | 1,063,079 | - |
| Total disbursements | <u>10,388,986</u> | <u>1,063,079</u> | <u>27,941</u> |
| Excess (deficiency) of receipts over (under) disbursements | (4,912,792) | (103,957) | 5,962 |
| Other financing sources, net | <u>3,485,317</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (1,427,475) | (103,957) | 5,962 |
| Balances beginning of year | <u>3,870,754</u> | <u>1,188,233</u> | <u>32,384</u> |
| Balances end of year | <u>\$ 2,443,279</u> | <u>1,084,276</u> | <u>38,346</u> |

See accompanying independent auditors' report.

| <u>Total</u> | <u>Original Budgeted Amounts</u> | <u>Final Budgeted Amounts</u> | <u>Budget to Actual Variance</u> |
|-------------------|--|---------------------------------------|--|
| 1,433,556 | 1,431,614 | 1,431,614 | 1,942 |
| 1,057,294 | 987,644 | 1,059,455 | (2,161) |
| 894,876 | 762,384 | 858,154 | 36,722 |
| 29,197 | 38,650 | 48,650 | (19,453) |
| 43,098 | 32,270 | 43,003 | 95 |
| 1,678,490 | 1,695,405 | 2,316,099 | (637,609) |
| 1,086,493 | 1,082,900 | 1,070,489 | 16,004 |
| 10,640 | 10,000 | 10,000 | 640 |
| 167,769 | 77,150 | 92,446 | 75,323 |
| <u>6,401,413</u> | <u>6,118,017</u> | <u>6,929,910</u> | <u>(528,497)</u> |
| 1,121,387 | 1,118,915 | 1,199,412 | 78,025 |
| 355,473 | 335,646 | 343,622 | (11,851) |
| 9,835 | 15,000 | 15,000 | 5,165 |
| 746,306 | 783,033 | 830,414 | 84,108 |
| 528,421 | 520,201 | 1,088,480 | 560,059 |
| 413,717 | 365,765 | 363,571 | (50,146) |
| 4,065,438 | 457,886 | 4,067,364 | 1,926 |
| 3,120,468 | 2,781,181 | 4,529,944 | 1,409,476 |
| 1,063,079 | 957,781 | 1,102,071 | 38,992 |
| <u>11,424,124</u> | <u>7,335,408</u> | <u>13,539,878</u> | <u>2,115,754</u> |
| (5,022,711) | (1,217,391) | (6,609,968) | 1,587,257 |
| <u>3,485,317</u> | <u>-</u> | <u>3,967,317</u> | <u>(482,000)</u> |
| (1,537,394) | (1,217,391) | (2,642,651) | 1,105,257 |
| <u>5,026,603</u> | <u>3,503,266</u> | <u>5,029,826</u> | <u>(3,223)</u> |
| <u>3,489,209</u> | <u>2,285,875</u> | <u>2,387,175</u> | <u>1,102,034</u> |

City of Carter Lake
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$6,204,470. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amended budgeted amounts in the public works and general government functions.

Other Supplementary Information

City of Carter Lake
 Schedule of Cash Receipts, Disbursements and Changes
 in Cash Balances – Nonmajor Governmental Funds
 As of and for the year ended June 30, 2011

| | Road Use Tax | Employee Benefits | Police Forfeitures | Info USA CEBA Grant | Carter Lake Smoke Eaters | Total |
|---|-----------------|----------------------|-----------------------|---------------------------|--------------------------------|----------|
| Receipts | | | | | | |
| Property tax | \$ - | 352,891 | - | - | - | 352,891 |
| Other city tax | 41,939 | 7,591 | - | - | - | 49,530 |
| Use of money and property | - | - | - | - | 151 | 151 |
| Intergovernmental | 327,139 | - | - | - | - | 327,139 |
| Charges for services | - | - | 129 | - | - | 129 |
| Miscellaneous | 28,903 | 78,393 | - | - | 33,752 | 141,048 |
| Total receipts | 397,981 | 438,875 | 129 | - | 33,903 | 870,888 |
| Disbursements | | | | | | |
| Operating: | | | | | | |
| Public safety | - | 251,212 | 39 | - | 27,941 | 279,192 |
| Public works | 354,428 | - | - | - | - | 354,428 |
| Culture and recreation | - | 78,127 | - | - | - | 78,127 |
| General government | - | 38,103 | - | - | - | 38,103 |
| Total disbursements | 354,428 | 367,442 | 39 | - | 27,941 | 749,850 |
| Excess (deficiency) of receipts over (under) disbursements | 43,553 | 71,433 | 90 | - | 5,962 | 121,038 |
| Other financing sources (uses): | | | | | | |
| Operating transfers out | (17,261) | - | - | - | - | (17,261) |
| Net change in cash balances | 26,292 | 71,433 | 90 | - | 5,962 | 103,777 |
| Cash balances beginning of year | 57,415 | 51,862 | 1,901 | 38,022 | 32,384 | 181,584 |
| Cash balances end of year | \$ 83,707 | 123,295 | 1,991 | 38,022 | 38,346 | 285,361 |
| Cash Basis Fund Balances | | | | | | |
| Restricted for other purposes | \$ 83,707 | 123,295 | 1,991 | 38,022 | 38,346 | 285,361 |

See accompanying independent auditors' report.

City of Carter Lake
Schedule of Indebtedness
Year ended June 30, 2011

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---|------------------|-------------------|--------------------------------|
| General obligation notes: | | | |
| Capital loan | Jun 1, 2006 | 4.10-4.30% | \$ 600,000 |
| Capital loan | Jul 1, 2008 | 3.75% | 540,000 |
| Capital loan | Jul 1, 2008 | 4.00-4.60% | 1,055,000 |
| Capital loan | Dec 16, 2010 | 2.00-2.75% | 3,520,000 |
| Urban renewal tax increment financing revenue notes: | | | |
| Capital loan | Feb 1, 1999 | 7.00% | \$ 200,000 |
| Local option sales tax revenue bonds: | | | |
| Revenue bonds | Jul 1, 2008 | 4.00-5.50% | \$ 3,580,000 |
| General obligation anticipation project notes: | | | |
| Capital loan | Apr 1, 2010 | 0.85% | \$ 3,300,000 |

See accompanying independent auditors' report.

| <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| 360,000 | - | 360,000 | - | 8,144 | - |
| 265,000 | - | 130,000 | 135,000 | 9,613 | - |
| 1,055,000 | - | - | 1,055,000 | 45,025 | - |
| <u>-</u> | <u>3,520,000</u> | <u>-</u> | <u>3,520,000</u> | <u>-</u> | <u>-</u> |
| <u>1,680,000</u> | <u>3,520,000</u> | <u>490,000</u> | <u>4,710,000</u> | <u>62,782</u> | <u>-</u> |
| <u>60,000</u> | <u>-</u> | <u>20,000</u> | <u>40,000</u> | <u>4,200</u> | <u>-</u> |
| <u>3,480,000</u> | <u>-</u> | <u>45,000</u> | <u>3,435,000</u> | <u>175,888</u> | <u>-</u> |
| <u>3,300,000</u> | <u>-</u> | <u>3,300,000</u> | <u>-</u> | <u>19,869</u> | <u>-</u> |

City of Carter Lake
Bond and Note Maturities
June 30, 2011

| Year Ending June 30, | Capital Loan | | Capital Loan | | General Obligation | |
|----------------------------|--------------------|-------------------|--------------------|---------------------|--------------------|---------------------|
| | Issued Jul 1, 2008 | | Issued Jul 1, 2008 | | Capital Loan | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2012 | 3.75% | \$ 135,000 | - | \$ - | 2.00% | \$ 345,000 |
| 2013 | - | - | 4.00% | 110,000 | 2.00% | 420,000 |
| 2014 | - | - | 4.00% | 110,000 | 2.00% | 425,000 |
| 2015 | - | - | 4.00% | 110,000 | 2.00% | 430,000 |
| 2016 | - | - | 4.25% | 115,000 | 2.00% | 365,000 |
| 2017 | - | - | 4.25% | 115,000 | 2.10% | 370,000 |
| 2018 | - | - | 4.30% | 120,000 | 2.30% | 380,000 |
| 2019 | - | - | 4.40% | 120,000 | 2.50% | 390,000 |
| 2020 | - | - | 4.50% | 120,000 | 2.75% | 395,000 |
| 2021 | - | - | 4.60% | 135,000 | - | - |
| | | <u>\$ 135,000</u> | | <u>\$ 1,055,000</u> | | <u>\$ 3,520,000</u> |

| Urban Renewal Tax Increment Financing Revenue Notes | | |
|---|------------------------------------|------------------|
| Year Ending June 30, | Capital Loan Issued Feb 1, 1999 | |
| | Interest Rates | Amount |
| 2012 | 7.00 % | \$ 20,000 |
| 2013 | 7.00 % | 20,000 |
| | | <u>\$ 40,000</u> |

See accompanying independent auditors' report.

Notes

Local Option Sales Tax

| | | Revenue Bonds Issued Jul 1, 2008 | |
|--------------|-------------------------|-------------------------------------|--------------|
| Total | Year Ending June 30, | Interest Rates | Amount |
| \$ 480,000 | 2012 | 4.000% | \$ 50,000 |
| 530,000 | 2013 | 4.250% | 50,000 |
| 535,000 | 2014 | 4.250% | 55,000 |
| 540,000 | 2015 | 4.375% | 55,000 |
| 480,000 | 2016 | 4.500% | 80,000 |
| 485,000 | 2017 | 4.500% | 80,000 |
| 500,000 | 2018 | 4.625% | 85,000 |
| 510,000 | 2019 | 4.750% | 90,000 |
| 515,000 | 2020 | 4.750% | 95,000 |
| 135,000 | 2021 | 4.750% | 100,000 |
| | 2022 | 4.875% | 105,000 |
| | 2023 | 4.875% | 110,000 |
| | 2024 | 4.875% | 115,000 |
| | 2025 | 5.125% | 120,000 |
| | 2026 | 5.125% | 125,000 |
| | 2027 | 5.125% | 130,000 |
| | 2028 | 5.125% | 140,000 |
| | 2029 | 5.250% | 145,000 |
| | 2030 | 5.250% | 155,000 |
| | 2031 | 5.250% | 160,000 |
| | 2032 | 5.250% | 170,000 |
| | 2033 | 5.250% | 180,000 |
| | 2034 | 5.250% | 185,000 |
| | 2035 | 5.250% | 195,000 |
| | 2036 | 5.250% | 210,000 |
| | 2037 | 5.500% | 220,000 |
| | 2038 | 5.500% | 230,000 |
| \$ 4,710,000 | | | \$ 3,435,000 |

City of Carter Lake
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|-------------------------------------|----------------------|------------------|------------------|------------------|------------------|
| Receipts | | | | | |
| Property tax | \$ 1,433,556 | 1,291,412 | 1,371,397 | 1,338,413 | 1,481,188 |
| Tax increment financing collections | 1,057,294 | 761,192 | 666,705 | 560,164 | 572,962 |
| Other city tax | 894,876 | 769,810 | 917,368 | 690,569 | 711,146 |
| Licenses and permits | 29,197 | 50,960 | 44,228 | 38,214 | 41,134 |
| Use of money and property | 43,098 | 48,866 | 92,497 | 97,277 | 137,870 |
| Intergovernmental | 1,678,490 | 634,227 | 469,175 | 678,524 | 685,306 |
| Charges for service | 139,293 | 157,437 | 99,001 | 74,234 | 87,682 |
| Special assessments | 10,640 | 11,390 | 17,121 | 64,153 | - |
| Miscellaneous | 189,750 | 164,185 | 182,892 | 274,683 | 133,945 |
| Total | <u>\$ 5,476,194</u> | <u>3,889,479</u> | <u>3,860,384</u> | <u>3,816,231</u> | <u>3,851,233</u> |
| Disbursements | | | | | |
| Operating: | | | | | |
| Public safety | \$ 1,149,328 | 1,035,862 | 1,020,330 | 1,097,329 | 919,725 |
| Public works | 355,473 | 345,078 | 486,637 | 516,466 | 405,487 |
| Health and social services | 9,835 | 14,007 | 14,522 | 10,065 | 9,951 |
| Culture and recreation | 746,306 | 847,624 | 788,197 | 800,422 | 609,128 |
| Community and economic development | 528,421 | 541,819 | 462,331 | 578,678 | - |
| General government | 413,717 | 352,446 | 302,792 | 324,096 | 293,986 |
| Debt service | 4,065,438 | 528,124 | 674,988 | 385,815 | 421,965 |
| Capital projects | 3,120,468 | 1,386,595 | 3,198,281 | 650,395 | 1,559,200 |
| Total | <u>\$ 10,388,986</u> | <u>5,051,555</u> | <u>6,948,078</u> | <u>4,363,266</u> | <u>4,219,442</u> |

See accompanying independent auditors' report.

| <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|------------------|------------------|------------------|------------------|------------------|
| 1,289,066 | 1,189,795 | 1,149,542 | 1,046,559 | 1,276,677 |
| 376,635 | 212,667 | 184,343 | 27,585 | 95,832 |
| 497,691 | 428,365 | 382,467 | 380,556 | - |
| 46,467 | 62,104 | 100,410 | 32,149 | 16,254 |
| 61,782 | 34,574 | 31,856 | 34,355 | 113,075 |
| 438,881 | 912,363 | 423,941 | 402,198 | 495,575 |
| 49,911 | 45,666 | 28,979 | 10,086 | 110,417 |
| 536 | 3,338 | 4,956 | 7,158 | 62,792 |
| 109,978 | 95,589 | 85,717 | 93,012 | 31,296 |
| <u>2,870,947</u> | <u>2,984,461</u> | <u>2,392,211</u> | <u>2,033,658</u> | <u>2,201,918</u> |
| 872,856 | 802,853 | 633,691 | 699,532 | 387,210 |
| 319,333 | 302,872 | 370,813 | 329,723 | 514,922 |
| 980 | 1,350 | - | 85 | 99,300 |
| 588,453 | 534,046 | 588,998 | 534,420 | 78,253 |
| - | 461,828 | - | - | 11,941 |
| 265,849 | 276,834 | 263,233 | 183,444 | 296,714 |
| 339,194 | 350,693 | 506,599 | 465,144 | 252,111 |
| 301,409 | - | 71,806 | 446,888 | 130,030 |
| <u>2,688,074</u> | <u>2,730,476</u> | <u>2,435,140</u> | <u>2,659,236</u> | <u>1,770,481</u> |

City of Carter Lake
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

| Grantor/Program | CFDA Number | Agency Pass-through Number | Program Expenditures |
|---|----------------|----------------------------------|-------------------------|
| Direct: | | | |
| U.S. Department of Homeland Security: Staffing for Adequate Fire and Emergency Response | 97.044 | | \$ 62,412 |
| U.S. Environmental Protection Agency: Brownfield Petroleum Assessment | 66.818 | | 72,716 |
| U.S. Department of Health and Human Services: Drug Free Communities Support | 93.276 | | 124,766 |
| Indirect: | | | |
| Federal Highway Commission: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | STP-U-1142 | 862,070 |
| Alcohol Impaired Driving Countermeasures Incentive Grant | 20.601 | FY10 | 5,524 |
| Alcohol Impaired Driving Countermeasures Incentive Grant | 20.601 | FY11 | 2,777 |
| | | | <u>870,371</u> |
| U.S. Environmental Protection Agency: Nebraska Department of Environmental Quality: Nonpoint Source Implementation Grant | 66.460 | 56-0787 | 52,317 |
| U.S. Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Public Awareness Grants | 97.036 | FEMA-1998-DRIA | 51,060 |
| | | | <u>\$ 1,233,642</u> |

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Carter Lake. The City of Carter Lake's financial statements are presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

City of Carter Lake

October 18, 2011

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 18, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Carter Lake's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Carter Lake's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Carter Lake's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Continued...

City of Carter Lake
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carter Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Carter Lake's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Carter Lake and other parties to whom the City of Carter Lake may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Carter Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P.C.



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

October 18, 2011

Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

We have audited the City of Carter Lake, Iowa's, compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the City of Carter Lake's major federal program for the year ended June 30, 2011. City of Carter Lake's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Carter Lake's management. Our responsibility is to express an opinion on City of Carter Lake's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Carter Lake's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Carter Lake's compliance with those requirements.

In our opinion, City of Carter Lake complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

City of Carter Lake
Independent Auditors' Report on
Compliance over Each Major Program

Internal Control Over Compliance

The management of City of Carter Lake is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Carter Lake's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Carter Lake's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as described above.

City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Carter Lake's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Carter Lake and other parties to whom the City of Carter Lake may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Schroeder & Associates, P.C.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) The audit did not disclose any significant deficiencies or material weaknesses in internal control over the major program.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 - Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Carter Lake did not qualify as a low-risk auditee.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were reported.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part III: Findings and Questioned Cost for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No comments or recommendations.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting:

IV-A-11 Certified Budget

Comment – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-11 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 Business Transactions

Comment – Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

| | | |
|------------------------------------|----------|-----------------|
| Barb Melonis, Council Member | | |
| Part owner of Carter Lake Hardware | Supplies | \$ <u>2,034</u> |

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with a Council Member appear to represent a conflict of interest since the transactions with the individual exceeded \$1,500 during the fiscal year.

Recommendation – The City should seek legal advice on this matter.

Response – We will do this.

Conclusion – Response accepted.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting - Continued:

IV-E-11 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-11 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 Deposits and Investments

Comment – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. However, the City was unable to locate the approved authorized depository resolution.

Recommendation – The City should update its depository resolution and maximum amounts authorized.

Response – We will do this.

Conclusion – Response accepted.

IV-H-11 Revenue Bonds and Notes

No instances of noncompliance with the revenue note and bond resolutions were noted.

I-J-11 Excess Balances

Comment – The balance in the Enterprise – Garbage Account at June 30, 2011, was in excess of the fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We reduced the garbage fees charged during the year.

Conclusion – Response accepted.

City of Carter Lake
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part IV: Other Findings Related to Statutory Reporting - Continued:

IV-K-11 Inactive Capital Projects

Comment – The Capital Projects Fund – Avenue H Account is inactive.

Recommendation – The City should make the appropriate transfer to close the account.

Response – The City plans to use the account in the future to repair the road and costs would be absorbed at that time.

Conclusion – Response accepted.



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

October 18, 2011

Doreen Mowery
City of Carter Lake
950 Locust Street
Carter Lake, IA 51510

Dear Doreen:

Enclosed are two copies of the City Annual Report for the City of Carter Lake for publication.

Please sign and forward to the State Auditor in the envelope provided.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/jb
Enc.

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council bluffs, iowa 51503
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